

**MONTANA MEDICAL LEGAL PANEL**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 2006 AND 2005**

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## LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Angie Grove

June 2007

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana Medical-Legal Panel, Montana Supreme Court,  
for the year ended December 31, 2006.

The audit was conducted by Henry Fenton, CPA, under a contract between the firm and our  
office. The comments and recommendations contained in this report represent the views of the  
firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit  
report.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a light gray background.

Scott A. Seacat  
Legislative Auditor

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(07C-01)

**MONTANA MEDICAL LEGAL PANEL**

**ADMINISTRATIVE OFFICIALS**

G. Brian Zins

Director

Kathleen Stepp

Assistant Director

**MONTANA MEDICAL LEGAL PANEL  
December 31, 2006**

**SUMMARY OF RECOMMENDATIONS**

Recommendation #1    I recommend that the Panel staff follow the requirements of state law regarding unclaimed property when voiding uncashed checks.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

There were no recommendations for the year ended December 31, 2005.

**HENRY FENTON  
CERTIFIED PUBLIC ACCOUNTANT**

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**INDEPENDENT AUDITOR'S REPORT**

June 15, 2007

Mr. G. Brian Zins, Director  
Montana Medical Legal Panel  
2021 Eleventh Avenue  
Helena, Mt. 59601

I have audited the accompanying statement of assets, liabilities, and surplus arising from cash transactions of the Montana Medical Legal Panel as of December 31, 2006 and 2005, and the related statement of revenues collected, expenses paid, and changes in surplus arising from cash transactions for the two years then ended. These financial statements are the responsibility of the management of the Montana Medical Legal Panel. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, the Montana Medical Legal Panel's policy is to prepare its financial statements on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, revenues and the related assets are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and surplus arising from cash transactions of the Montana Medical Legal Panel as of December 31, 2006 and 2005 and its revenues collected, expenses paid, and changes in surplus for the two years then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued a report dated June 13, 2007 on my consideration of the Montana Medical Legal Panel's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Sincerely,

A handwritten signature in cursive script that reads "Henry Fenton".

Henry Fenton  
Certified Public Accountant

**MONTANA MEDICAL LEGAL PANEL  
STATEMENT OF ASSETS, LIABILITIES, AND SURPLUS  
ARISING FROM CASH TRANSACTIONS  
DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current assets:		
Cash in bank	\$311,885	\$154,536
Reimbursements receivable	<u>-</u>	<u>-</u>
Total current assets	<u>\$311,885</u>	<u>\$154,536</u>
 <b>LIABILITIES AND SURPLUS</b>		
Surplus	<u>\$311,885</u>	<u>\$154,536</u>

See accompanying notes to financial statements.



**MONTANA MEDICAL LEGAL PANEL**  
**STATEMENT OF REVENUES COLLECTED, EXPENSES PAID, AND CHANGES IN SURPLUS**  
**ARISING FROM CASH TRANSACTIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Income:</b>		
Assessment fees	\$1,011,637	\$812,250
Interest income	6,611	3,586
Miscellaneous income	4,877	1,719
<b>Total income</b>	<u>1,023,125</u>	<u>817,555</u>
<b>Expenses:</b>		
Administrative	318,852	266,530
Panelist hearing time	96,674	124,954
Panelist preparation and travel time	52,583	66,409
Panelist travel	87,704	102,621
Meeting rooms	11,463	11,523
Records reproduction	54,485	71,537
Postage	27,762	30,649
Medical records and x-rays	26,593	28,119
Telephone	4,962	7,379
Office supplies	8,166	6,301
Panel legal counsel	45,511	108,028
Panel consultant	78,059	-
Legal defense	-	7,140
Computer software	33,540	19,665
Liability insurance	1,000	3,653
Temporary personnel	15,357	16,740
Miscellaneous	3,065	3,983
<b>Total expenses</b>	<u>865,776</u>	<u>875,231</u>
<b>Net income (loss)</b>	157,349	(57,676)
<b>Surplus, January 1st</b>	154,536	212,212
<b>Surplus, December 31st</b>	<u>311,885</u>	<u>154,536</u>

See accompanying notes to financial statements.

**MONTANA MEDICAL LEGAL PANEL**  
**STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID - BUDGET VS. ACTUAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>2006 Budget</u>	<u>2006 Actual</u>	<u>Revenues Over (Under) Budget</u>
<b>Income:</b>			
Assessment fees	\$991,380	\$1,011,637	\$ 20,257
Interest income	2,737	6,611	3,874
Miscellaneous income	-	4,877	4,877
<b>Total income</b>	<u>994,117</u>	<u>1,023,125</u>	<u>29,008</u>
	<u>2006 Budget</u>	<u>2006 Actual</u>	<u>Expenses (Over) Under Budget</u>
<b>Expenses:</b>			
Administrative	266,526	318,852	(52,326)
Panelist hearing time	135,000	96,674	38,326
Panelist preparation and travel time	75,000	52,583	22,417
Panelist travel	110,000	87,704	22,296
Meeting rooms	15,000	11,463	3,537
Records reproduction	80,000	54,485	25,515
Postage	36,000	27,762	8,238
Medical records and x-rays	35,000	26,593	8,407
Telephone	9,000	4,962	4,038
Office supplies	7,000	8,166	(1,166)
Panel legal counsel	100,000	45,511	54,489
Panel consultant	-	78,059	(78,059)
Legal defense	10,000	-	10,000
Computer software	25,000	33,540	(8,540)
Liability insurance	5,000	1,000	4,000
Temporary personnel	25,000	15,357	9,643
Miscellaneous	7,500	3,065	4,435
<b>Total expenses</b>	<u>941,026</u>	<u>865,776</u>	<u>75,250</u>
<b>Net income (loss)</b>	53,091	157,349	104,258

See accompanying notes to financial statements.

**MONTANA MEDICAL LEGAL PANEL**  
**STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID - BUDGET VS. ACTUAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>2005 Budget</u>	<u>2005 Actual</u>	<u>Revenues Over (Under) Budget</u>
<b>Income:</b>			
Assessment fees	\$806,115	\$812,250	\$ 6,135
Interest income	2,122	3,586	1,464
Miscellaneous income	-	1,719	1,719
<b>Total income</b>	<u>808,237</u>	<u>817,555</u>	<u>9,318</u>
	<u>2005 Budget</u>	<u>2005 Actual</u>	<u>Expenses (Over) Under Budget</u>
<b>Expenses:</b>			
Administrative	266,526	266,530	(4)
Panelist hearing time	112,000	124,954	(12,954)
Panelist preparation and travel time	58,000	66,409	(8,409)
Panelist travel	80,000	102,621	(22,621)
Meeting rooms	12,500	11,523	977
Records reproduction	70,000	71,537	(1,537)
Postage	30,000	30,649	(649)
Medical records and x-rays	35,000	28,119	6,881
Telephone	8,000	7,379	621
Office supplies	4,750	6,301	(1,551)
Panel legal counsel	70,000	108,028	(38,028)
Legal defense	-	7,140	(7,140)
Computer software	15,000	19,665	(4,665)
Liability insurance	3,500	3,653	(153)
Temporary personnel	5,000	16,740	(11,740)
Miscellaneous	5,500	3,983	1,517
<b>Total expenses</b>	<u>775,776</u>	<u>875,231</u>	<u>(99,455)</u>
<b>Net income (loss)</b>	<b>32,461</b>	<b>(57,676)</b>	<b>(90,137)</b>

See accompanying notes to financial statements.

**MONTANA MEDICAL LEGAL PANEL  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Panel was established by the "Montana Medical Legal Panel Act", as authorized by Section 27-6-101 and 104 M.C.A. The Panel is attached to the Montana Supreme Court for administrative purposes only, except that 2-15-121(2) M.C.A. does not apply.

The Panel was created to review all malpractice claims or potential claims against health care providers for the purpose of preventing, where possible, the filing of court actions against health care providers and their employees for professional liability in situations where the facts do not permit at least a reasonable inference of malpractice and to make possible the fair and equitable disposition of such claims against health care providers as are or reasonably may be well founded.

**Cash Basis**

The Panel follows the cash basis of accounting whereby items of expense are recognized as cash is paid and revenues are recognized when cash is received. This is a comprehensive basis of accounting other than generally accepted accounting principles.

**Assessment Fees**

Annual assessments are levied against licensed physicians, dentists, podiatrists, hospitals, and other health care facilities in an amount sufficient to meet all panel costs. Annual assessments are apportioned among each group of health care providers according to the number of claims brought against each type of provider.

**NOTE 2. CASH DEPOSITS**

Cash in bank consists of the following deposit accounts:

	2006	2005
Valley Bank - checking	\$ 26,222	\$ 39,710
US Bank - savings	11,026	6,601
American Federal Savings Bank - savings	59,099	1,941
First Community Bank - savings	99,330	95,968
First Interstate Bank - savings	3,703	2,989
First Security Bank - savings	5,624	5,131
Mountain West Bank - savings	8,229	2,196
Flint Creek Valley Bank - savings	98,652	-
	<u>\$ 311,885</u>	<u>\$ 154,536</u>

Individual accounts are insured up to \$100,000.

**MONTANA MEDICAL LEGAL PANEL  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**NOTE 3. RELATED PARTIES**

G. Brian Zins is director of both the Montana Medical Association and the Montana Medical Legal Panel. The Montana Medical Association bills the Montana Medical Legal Panel for services and facilities provided to that organization. This administrative fee is subject to the approval of the Chief Justice of the Montana Supreme Court. The Montana Medical Association was paid administrative fees of \$318,852 in 2006 and \$266,530 in 2005.

**NOTE 4. RISK MANAGEMENT**

The Panel is exposed to risk of loss primarily through possible errors and omissions pertaining to claims filed with the Panel. This risk is transferred through the purchase of a professional liability policy from a private insurance carrier.

**HENRY FENTON  
CERTIFIED PUBLIC ACCOUNTANT**

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

June 15, 2007

Mr. G. Brian Zins  
Montana Medical Legal Panel  
2021 Eleventh Avenue  
Helena, Mt. 59601

I have audited the financial statements of the Montana Medical Legal Panel as of and for the two years ended December 31, 2006, and 2005 and have issued my report thereon dated June 13, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audits, I considered the Montana Medical Legal Panel's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be a material weakness.

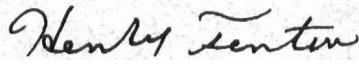
**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Montana Medical Legal Panel's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and,

accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance which is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as recommendation #1.

This report is intended solely for the information and use of the legislative audit committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script, appearing to read "Henry Fenton", written in dark ink on a light-colored background.

Henry Fenton  
Certified Public Accountant

**MONTANA MEDICAL LEGAL PANEL**  
**December 31, 2006**

**SCHEDULE OF FINDINGS**

**FINDINGS – OTHER MATTERS**

Miscellaneous income includes \$3,426.57 from voided uncashed checks issued to individuals serving on case review panels in prior years. State law requires that the holder of unclaimed property file an annual report with the Department of Revenue and turn over such property to the Department of Revenue. (70-9-808, MCA). The holder of unclaimed property is further required to send written notice to the apparent owner of property with a value exceeding \$50, not more than 120 days or less than 60 days before filing the report. (70-9-805(5), MCA) Unclaimed checks for wages and bonuses and other compensation for personal services are considered unclaimed property 1 year after issuance. (70-9-803(1)).

**Recommendation #1**

I recommend the Panel staff follow the requirements of state law regarding unclaimed property when voiding uncashed checks.



# MONTANA MEDICAL LEGAL PANEL

2021 Eleventh Avenue • Suite 1 • Helena, MT • 59601-4890

Telephone (406) 443-1110 • Fax (406) 443-4042

June 18, 2007

Monday

Mr. Scott A. Seacat  
Legislative Auditor  
P. O. Box 201705  
Helena, Montana 59620-1705

Dear Mr. Seacat:

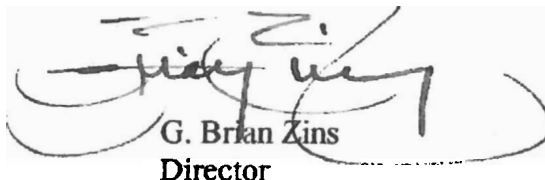
As Director of the Montana Medical Legal Panel, I am corresponding with you about the recently completed audit of the Panel by Henry Fenton, C.P.A.

We have reviewed the audit and believe it accurately represents the financial records of the Panel for the 2006 fiscal year.

As noted in the Schedule of Findings the \$3426.57 was recorded as miscellaneous income which amount resulted from uncashed vouchers. The Panel will tender this amount to the State of Montana as unclaimed property pursuant to 70-9-808, M.C.A.

All best wishes.

Sincerely,



G. Brian Zins  
Director